

Program of All-Inclusive Care for the Elderly

Amount that Would Otherwise
be Paid and Capitation Rate
Development Certification
Amendment

State of California
Department of Health Care Services
Capitated Rates Development Division
May 3, 2023

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Section 1

Executive Summary

The California Department of Health Care Services (DHCS) contracted with Mercer Government Human Services Consulting (Mercer), part of Mercer Health & Benefits LLC, to develop actuarially sound capitation rates for the Program for All-Inclusive Care for the Elderly (PACE) Organizations and also PACE Amounts that Would Otherwise be Paid (AWOPs) for use during the calendar year (CY) 2022 rating period. The original capitation rates were developed by Mercer and certified in a report dated December 16, 2021 (please see the attached document *CA CY 2022 PACE Rate Certification 2021 12.pdf*). Subsequent to the submission of the original rate certification report, revisions to the capitation rates were needed for the following item related to the COVID-19 Public Health Emergency (PHE):

- Implementation of a 10% unit cost increase for long-term care (LTC) services (including Hospice) due to the fee schedule increase during the PHE.

Please see the attached documents detailing the revised PACE rates for the CY 2022 rating period:

- CY 2022 PACE Capitation Rate Summaries 2023 05.xlsx
- CY 2022 PACE Capitation Rates – Experience-Based CRCS detail 2023 05.xlsx
- CY 2022 PACE Capitation Rates – 1H AWOP CRCS Detail 2023 05.xlsx
- CY 2022 PACE Capitation Rates – 2H AWOP CRCS Detail 2023 05.xlsx
- CA CY 2022 PACE Additional Exhibits 2023 05.xlsx

The original prospective capitation rates included rates for four new PACE Organizations (POs) that were expected to become operational during CY 2022, but two of these POs did not become operational in CY 2022. This certification includes rates only for those two POs that became operational in CY 2022.

All other rating-elements not addressed in this revision remain unchanged from the CY 2022 PACE capitation rates delivered previously.

This revision describes the updates that were made in accordance with generally accepted actuarial principles and practices, consistent with the approach utilized by DHCS in developing reasonable, appropriate, and attainable capitation rates under Medi-Cal. This revision was developed to provide the requisite rate documentation to DHCS and to support the Centers for Medicare & Medicaid Services (CMS) rate review process.

Across all counties and populations, the revised lower bound CY 2022 PACE rates and AWOPs represent a 0.5% and 4.5% increase, respectively, when compared to the original certified CY 2022 PACE capitation rates at the lower bound and AWOPs.

Overview

The revised PACE capitation rates and AWOPs were developed in accordance with rate-setting guidelines established by CMS and include the changes described in this revision letter. Highlights of the changes are described for the various rate components in the remainder of this revision letter.

All Rate-Setting Elements Not Addressed Herein

There have been no changes made to any rate-setting components not addressed in this revision. For more detail related to these unchanged elements of the certification, please refer to the original December 16, 2021 certification report and its corresponding supporting documents.

Revision — Program Changes

Long-Term Care Rate Changes

Rate increases for LTC services are largely handled through a program change adjustment and are based on legislatively mandated fee-for-service rate increases, including annual rate increases. In addition, DHCS implemented a 10% fee increase for LTC facilities effective for the duration of the PHE declared by the Secretary of Health and Human Services for Coronavirus Disease 2019, beginning March 1, 2020, which is anticipated to produce corresponding pricing pressures in the managed care delivery system. The underlying assumption in the original certified rates was that this increase would not be applicable for the CY 2022 rating period. For both the revised AWOPs and revised experience-based capitation rates contained herein, the underlying assumption is that this increase will be applicable for the entirety of the CY 2022 rating period.

Hospice Rate Changes

Similar to the LTC category of service, unit cost trend factors were not developed for the Hospice category of service. Instead, Hospice price increases are handled through a program change adjustment and are based on legislatively mandated annual fee-for-service rate increases for Hospice room and board. In addition, DHCS implemented a 10% fee increase for LTC facility room and board rates (including for Hospice facilities) effective for the duration of the PHE declared by the Secretary of Health and Human Services for Coronavirus Disease 2019, beginning March 1, 2020, which is anticipated to produce corresponding pricing pressures in the managed care delivery system. Like the LTC rate changes mentioned above, the underlying assumption in the original certified rates was this increase would not be applicable for the CY 2022 rating period. For both the revised AWOPs and revised experience-based revised capitation rates contained herein, the underlying assumption is this increase will be applicable for the entirety of the CY 2022 rating period.

AB 97

Effective July 1, 2022, Medi-Cal restored the 10% AB 97 FFS payment reductions previously applied for various provider types that will now be exempt from AB 97 payment reductions, which include the following:

- Air Ambulance Transportation Services
- Alternative Birth Centers-Specialty Clinics — services provided to adults
- Assistive Device and Sick Room Supply Dealers (Durable Medical Equipment)
- Audiologists
- Chronic Dialysis Clinics — services provided to adults
- Community Clinics — services provided to adults
- Hearing Aid Dispensers
- Nurses, including certified nurse-midwives, nurse anesthetists, certified pediatric nurse practitioners, certified family nurse practitioners, and group certified pediatric nurse practitioners.
- Occupational Therapists
- Optometrists
- Orthoptists
- Portable X-Ray
- Psychologists
- Rehabilitation Clinics — services provided to adults
- Respiratory Care Practitioners
- Speech Therapists
- Surgical Clinics — services provided to adults

Adjustments were developed using encounter data, by COA, for the provider types listed above during the period of January 1, 2019 to December 31, 2019. This adjustment accounts for pricing pressures based on FFS payment increases which managed care plans are anticipated to pay. For only the revised AWOP rates contained herein, the underlying assumption is this increase will be applicable for the second half of the CY 2022 rating period.

Certification and Final Rates

This certification assumes items in the Medicaid State Plan or Waiver, as well as the PACE contract, have been approved by CMS.

In preparing the capitation rates described, Mercer has used and relied upon enrollment, eligibility, claim, reimbursement level, benefit design, and financial data and information supplied by DHCS, its POs, and its vendors. DHCS, its POs, and its vendors are solely responsible for the validity and completeness of this supplied data and information. Mercer has reviewed the summarized data and information for internal consistency and reasonableness, but we did not audit it. In Mercer's opinion, it is appropriate for the intended rate setting purposes. However, if the data and information are incomplete or inaccurate, the values shown in this report and associated exhibits may differ significantly from values that would be obtained with accurate and complete information; this may require a later revision to this report.

Because modeling all aspects of a situation or scenario is not possible or practical, Mercer may use summary information, estimates, or simplifications of calculations to facilitate the modeling of future events in an efficient and cost-effective manner. Mercer may also exclude factors or data that are immaterial in our judgment. Use of such simplifying techniques does not, in our judgment, affect the reasonableness, appropriateness, or attainability of the results for the Medicaid program. Actuarial assumptions may also be changed from one certification period to the next because of changes in mandated requirements, program experience, changes in expectations about the future, and other factors. A change in assumptions is not an indication that prior assumptions were unreasonable, inappropriate, or unattainable when they were made.

Mercer certifies that the revised PACE model rate ranges for the CY 2022 rating period, January 1, 2022 through December 31, 2022, were developed in accordance with generally accepted actuarial practices and principles, and are appropriate for the Medi-Cal covered populations and services under the managed care contract. The undersigned actuaries are members of the American Academy of Actuaries and meet its qualification standards to certify to the actuarial soundness of these Medicaid managed care capitation rates.

AWOPs and rate ranges developed by Mercer are actuarial projections of future contingent events. All estimates are based upon the information and data available at a point in time, and are subject to unforeseen and random events. Therefore, any projection must be interpreted as having a likely, and potentially wide, range of variability from the estimate. Any estimate or projection may not be used or relied upon by any other party or for any other purpose than for which it was issued by Mercer. Mercer is not responsible for the consequences of any unauthorized use. Actual PO costs will differ from these projections. Mercer has developed these rates and rate ranges on behalf of DHCS to demonstrate compliance with the CMS requirements identified in the CMS PACE Medicaid Capitation Rate Setting Guide and are appropriate for the populations and services covered under the PACE program. Use of these rates for any purpose beyond that stated may not be appropriate.

POs are advised that the use of these rates may not be appropriate for their particular circumstance, and Mercer disclaims any responsibility for the use of these rate ranges by POs for any purpose. Mercer recommends that POs considering contracting with DHCS should analyze its own projected medical expense, administrative expense, and any other premium needs for comparison to these rates before deciding whether to contract with DHCS.

DHCS understands that Mercer is not engaged in the practice of law, or in providing advice on taxation matters. This report, which may include commenting on legal or taxation issues

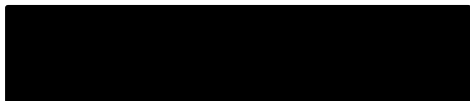
or regulations, does not constitute and is not a substitute for legal or taxation advice. Accordingly, Mercer recommends that DHCS secure the advice of competent legal and taxation counsel with respect to any legal or taxation matters related to this report or otherwise.

This certification report assumes the reader is familiar with the Medi-Cal program, Medi-Cal eligibility rules, and actuarial rating techniques. It has been prepared exclusively for DHCS and CMS, and should not be relied upon by third parties. Other readers should seek the advice of actuaries, or other qualified professionals competent in the area of actuarial rate projections, to understand the technical nature of these results. Mercer is not responsible for, and expressly disclaims liability for, any reliance on this report by third parties.

DHCS agrees to notify Mercer within 30 days of receipt of this report if it disagrees with anything contained in this report or is aware of any information or data that would affect the results of this report that has not been communicated or provided to Mercer or incorporated herein. The report will be deemed final and acceptable to DHCS if nothing is received by Mercer within such 30 day period.

If you have any questions on the above or the certification report, please feel free to contact Mike Nordstrom at mike.nordstrom@mercer.com or Ethel Tan at ethel.tan@mercer.com.

Sincerely,



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